

BACKGROUND

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Public Administration Wage Growth

Comparing Wage Growth in Industries
Across the Canadian Economy
(1998-2009)

By Ben Eisen, M.P.P.

Executive Summary

“**...wages for federal and provincial public administration workers, has been faster than wage growth... by any other industry...**”

Over the course of the past decade, wage growth for public administration workers has dramatically outstripped wage growth in the rest of the economy. Between 1998 and 2009, wages for federal public administration workers increased by 59%. That is nearly double the average rate of wage growth in the economy as a whole, which experienced average wage growth of 30% during this same period. Provincial level public administration workers also saw their wages grow much faster than the economy-wide average. The average weekly wage of provincial level public administration workers grew by 55% during this time period.

This paper provides further context on the rate of wage growth for public servants compared to other workers in the economy by analyzing Statistics Canada data that tracks the average wage growth in a wide range of industries, including public administration. An examination of this data shows that wage growth for federal and provincial public administration workers has been *faster than the wage growth experienced by any other industry* tracked by Statistics Canada during this time period.

Growth in the wage gap between public servants and the average worker in the economy over time is not necessarily objectionable. It is possible economic and technological changes over the past ten years have increased the value of highly-educated workers such as bureaucrats, thereby causing government wages to increase faster than the economy-wide average. However, the evidence presented in this paper shows that wages for federal and provincial public servants are growing substantially faster than wages in *any other industry*—including other fields that require significant education and skills such as finance and the management of businesses and enterprises. This suggests that there may be other, less benign explanations for rapid public administration wage growth than an economic increase in returns to education. The unique rate of public administration wage growth since 1998—unmatched by any other industry in the country—should be carefully examined by future researchers to determine whether political factors such as rent seeking and union influence on government policy can help explain the anomalously rapid growth of government wages.

This backgrounder also examines Statistics Canada data to quantify how much money would have been saved by taxpayers if federal and provincial public administration wage growth had merely matched wage growth in industries with the next highest rate of wage growth in the economy behind public administration. The data shows that if wage growth had been modestly restrained in this way between 1998 and 2009, taxpayers would have saved over \$2.6 billion on public administration wages in 2009 alone.

1. Richard E. Mueller, “Public-Private Sector Wage Differentials in Canada: Evidence from Quartile Regressions.” *Economics Letters* vol. 60 (1998): 229–235.
2. Mueller, *Ibid.*, 234.

Introduction

In 1998, Richard Mueller published a paper in the journal *Economics Letters* that established the existence of a public sector “pay premium” in Canada.¹ After controlling for several relevant variables, Mueller found that public sector workers in Canada were generally being paid significantly more money than similarly skilled and experienced workers in the private sector. Even after controlling for a significant range of variables that might explain higher levels of pay for public servants, Mueller concluded that “public sector employees tend to be paid a wage premium on average compared to their counterparts in the private sector.”²

Mueller’s calculations did not take into account benefits or job security, both of which tend to be better in the public sector. With these advantages, as well as the pay premium discovered in Mueller’s regression analysis, it was already clear in 1998 that public sector workers were compensated more generously and enjoyed more security than comparably skilled and experienced workers elsewhere in the economy.

An examination of Statistics Canada data shows that the pay gap between public servants and private sector workers has grown considerably since the publication of Mueller’s paper in 1998. This backgrounder shows that according to Statistics Canada data, wages for federal and public administration workers have increased more than any other major category of worker in the economy since 1998 and provides an estimate of the impact of this uniquely rapid wage growth on government budgets in Canada.

Unlike Mueller’s paper, this backgrounder does not seek to compare public servants to equivalently skilled and experienced private sector workers to determine the size of the current pay premium. Instead, this paper presents data showing that the rate of wage growth for provincial and federal public administration workers is unique among the twenty major industries tracked by Statistics Canada. Furthermore, this backgrounder examines the cost of this uniquely rapid wage growth for taxpayers, and finds that it represents a major strain on government budgets at both the federal and provincial level.

“...benefits...
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Public administration wage growth vs. other industries

For federal public administration workers, average wage growth was ... nearly double the rate... throughout the wider economy...

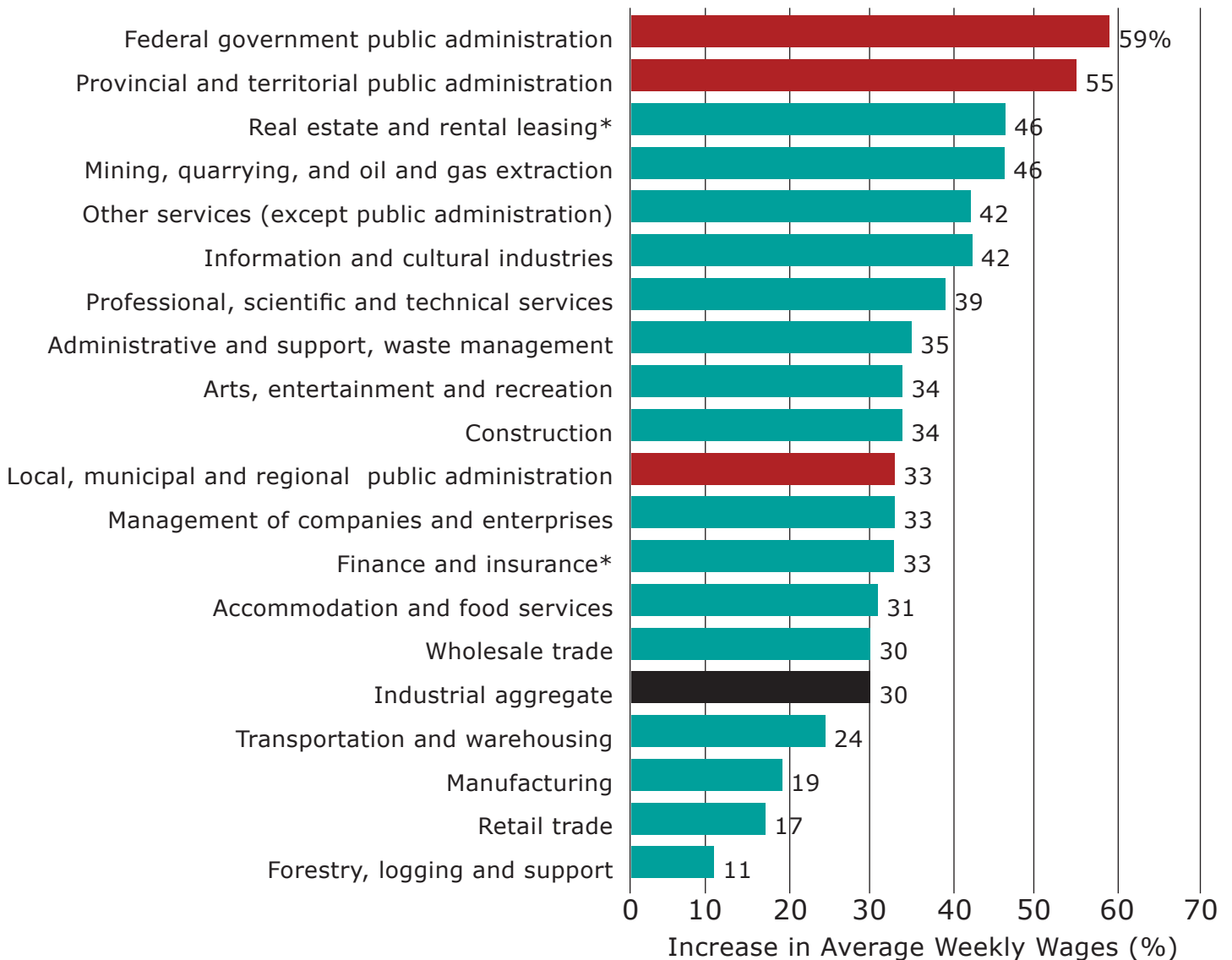
Statistics Canada uses the North American Industry Classification System (NAICS) to track average wage levels for workers employed in different areas of the economy. The NAICS divides the economy into twenty major categories, one of which is public administration. This category does not include all public sector workers, but it is the largest category consisting entirely of government workers, and includes individuals engaged in the administration, oversight and management of public programs. In short, the public administration category consists of bureaucrats, as the term is typically understood, but does not include other public sector workers such as teachers, doctors and crown corporation employees. For the sake of concision, I will refer to this category of public administration workers as “public servants” throughout this backgrounder.

Analysis of Statistics Canada data shows that the wages of public servants have, on average, grown considerably faster than the wages of other participants in the labour force throughout the past decade. In fact, wages for both federal and provincial public servants grew more between 1998 and 2009 than did wages for *any other major category of worker* tracked by Statistics Canada.

Across the entire economy, weekly wages grew, on average, by 30% during this time period. For provincial public administration workers, wage growth during the same period was much greater at 55%. For federal public administration workers, average wage growth was 59% during this 10-year period, nearly double the rate of average wage growth throughout the wider economy.

Chart One (next page) compares wage growth for public servants at the federal, provincial and municipal levels (red) over the past ten years with all the other major categories of workers in the economy (teal) as categorized by the NAICS. Categories such as health, education and utilities that are comprised largely of public sector employees have been excluded, in order to allow a straightforward comparison between wage increases for public servants and workers in private-sector industries.

Chart One shows that at all three levels of government, public administration workers enjoyed stronger wage growth over the past decade than the average worker in the economy. As a result, the wage gap between public administration workers and workers elsewhere in the economy has grown significantly in the past ten years.

Chart 1. Wage Growth by Industry (1998-2009)

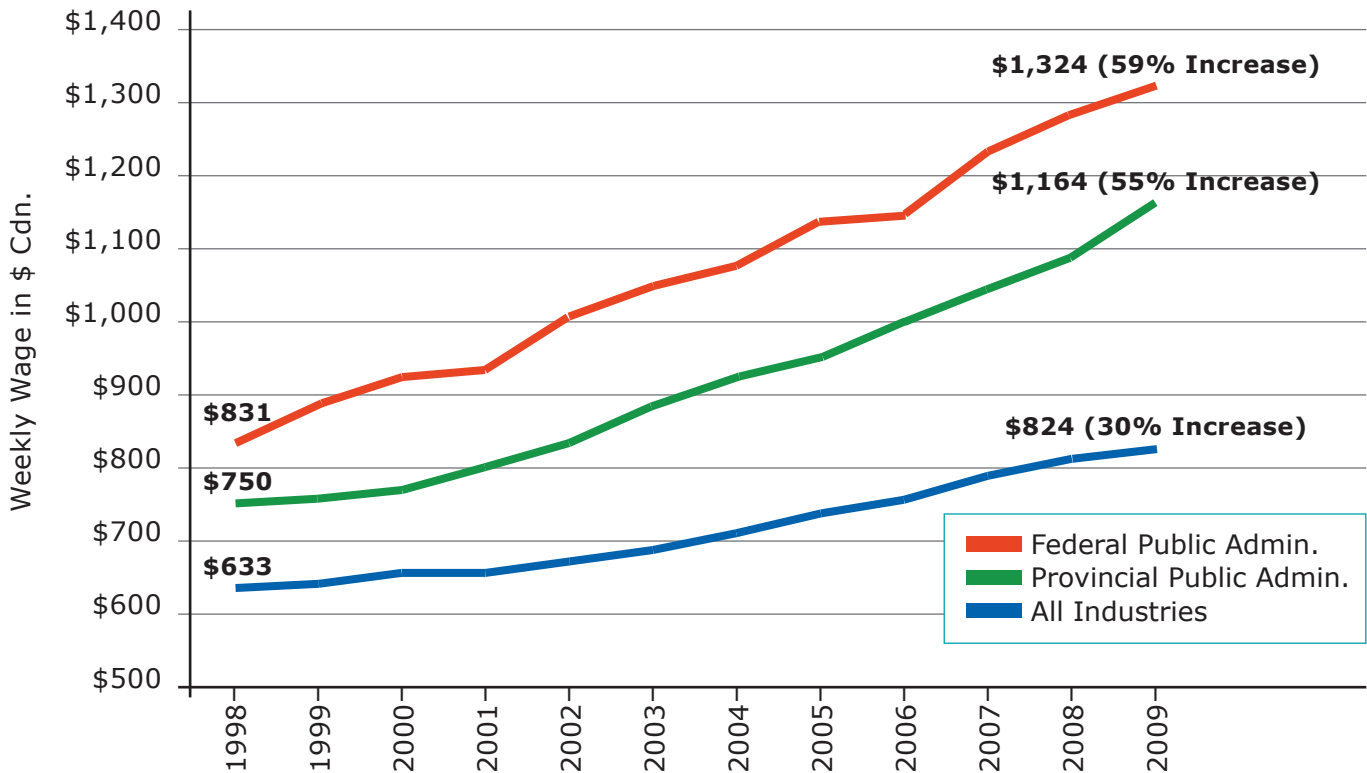
* Data only available from 2002 and has been prorated to allow comparison to public administration.

Sources: Calculations by author using Statistics Canada Table 281-0027.

Charts Two and Three (next page) shows that the wage gap between federal public servants and the typical worker in the economy has increased by 251 percent in recent years, going from \$9,950 per year in 1998 to \$25,000 in 2009.

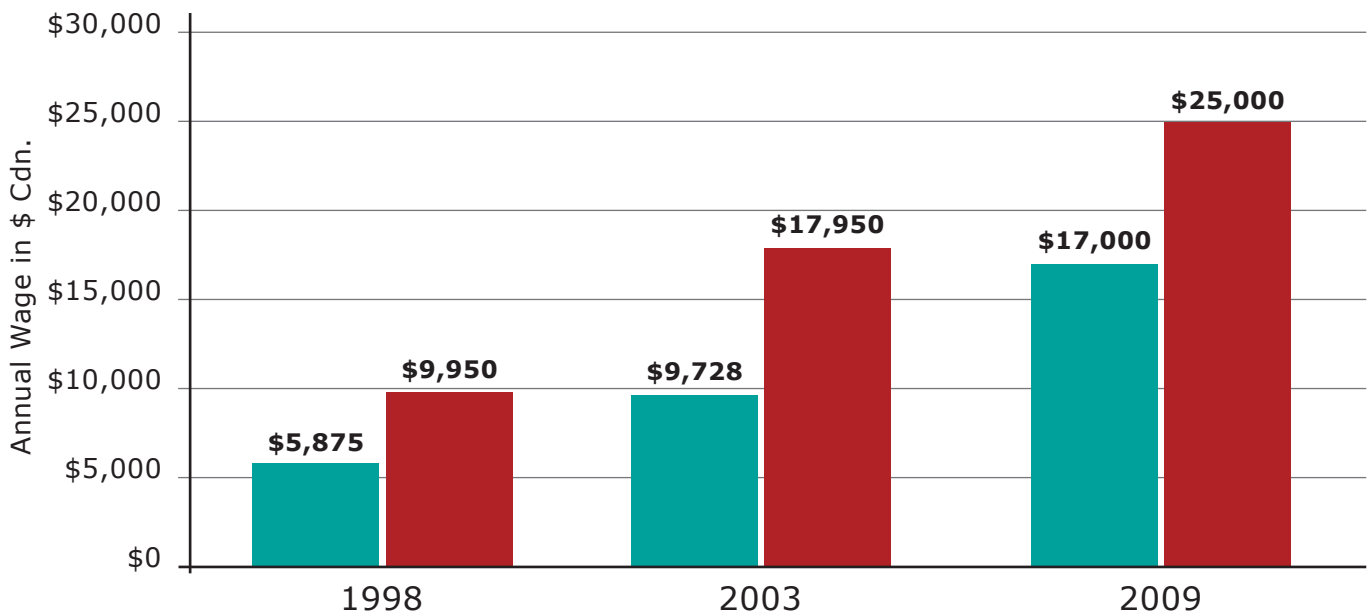
Regardless of the causes of uniquely rapid public administration wage growth, this phenomenon is problematic, as it will continue to create problems for Canada's fiscal health in the years ahead. Public servant salaries are a major government expense because the primary source of revenue is the private sector tax base—the growth of which is reflected in the average rate of wage growth for private sector workers.

Chart 2. Weekly Wage Growth in Canada: Public Administration vs. Entire Economy



Calculations by author using StatCan Table 281-0027

Chart 3. Average Annual Wage Gap Between Public Administration and Other Workers



Calculations by author using StatCan Table 281-0027



If a major expense persistently increases faster than the major source of revenue, it will become harder and harder for governments to balance their books. To use an analogy, this would put governments in the position of families whose monthly food bills are increasing every month faster than the breadwinner's wages. If the growth of a major expense continues to outstrip the growth of the major source of revenue, it will create problems—for a household or a government. This section will examine the scale of this problem and the impact of rapid public servant wage growth on government budgets in Canada during the past decade.

The federal government employs approximately 292,000 public administration workers. Across Canada, provincial and territorial governments employ a total of approximately 283,000 public administration workers. This means that, in total, the uniquely rapid wage growth for public administration workers described in this paper has been enjoyed by approximately 575,000 government workers.

One way to think about the cost of rapidly escalating public administration wages is to consider how much money would have been saved by governments in Canada if public administration wages had grown at the same level as wages in other industries over the same time period. For example, the highest rate of wage growth aside from federal and provincial level public administration occurred in the "mining, quarrying and natural gas extraction" category, where wages grew 46% between 1998 and 2009. Note that this is substantially higher than the industrial aggregate for the entire economy (30%) but still substantially less than the 59% wage growth received by federal public servants and 55% wage growth for provincial level public servants.

If public administration wages had grown only as fast as wages in industry that enjoyed the next highest rate of wage growth since 1998, the annual wage for a federal public administration workers would have been approximately \$60,640 in 2009—approximately \$5,573 less than the annual wage that they actually received. For provincial level public servants, the average annual savings to the government per public administration worker would have been approximately \$3,430 if wage growth had been held to the same level as the fastest-growing private-sector industry.

Since the federal public administration workforce consists of about 292,000 employees, the savings of \$5,573 per public administration worker would have reduced government expenditures by approximately \$1.6 billion in 2009 alone. At the provincial level, the savings would have been approximately \$972 million in 2009. This means that, in total, public administration wage growth beyond the level enjoyed by the private sector industry with the very fastest growing wage rates cost Canadian taxpayers approximately \$2.6 billion in 2009 alone.

“... the uniquely rapid wage growth... has been enjoyed by approximately 575,000 government workers.”

Discussion

The gap between the upper end of this range and federal public administration workers is substantial...

Growth in the wage gap between public servants and the average worker in the economy over time is not necessarily objectionable. It is possible that economic and technological changes over the past ten years have increased the value of highly-educated workers—which bureaucrats tend to be—causing government wages to grow quickly. However, Chart One shows that wages for federal and provincial public servants are growing substantially faster than wages in any other industry—including other fields that require significant education and skills. For example, wages for individuals engaged in the “management of companies and enterprises” have, on average, seen their wages increase by 33% during this period—more than the economy-wide average but much less than public servants. Similarly, workers who provide professional, scientific and technical services have experienced an average weekly wage growth of 39%. Again, this category of skilled and educated workers have enjoyed larger wage increases than average worker in the economy, but much smaller wage increases than public servants.

It is conceivable that benign economic forces are responsible for this uniquely rapid increase for public servants. These forces could include an increase in the economic value of the skills and experiences held by public administration workers, or a change in the composition of the federal and provincial public administration workforces that has created a higher concentration of skilled workers in that industry. These possibilities cannot be confirmed or disproven by this data.

However, federal and provincial public administration workers are true outliers in terms of wage growth amongst the industries tracked by Statistics Canada—a large number of which are clustered closely together in a narrow range of 33–46% wage growth during this period. Nine of the 17 primarily private-sector industries tracked by Statistics Canada experienced total wage growth in this range from 1999–2009. This range where industries are densely clustered is just 13 percentage points wide, and includes the major industries that employ high numbers of skilled and educated workers. The gap between the upper end of this range and federal public administration workers is substantial—nine percentage points in the case of provincial workers and 13 percentage points in the case of federal public administration workers. Nearly all of the other industries that have seen solid wage growth are clustered together in a narrow 13 percentage point range—federal and provincial public servants alone have experienced wage growth in excess of this range. While it is possible to imagine that benign economic phenomena have coincidentally combined in such a way as to create uniquely rapid wage growth for public servants, it is not evident what those phenomena would have been.



“...public sector unions are able... to extract “economic rents”— an economic term for compensation above and beyond the market value of their labour.”

Many political scientists and economists have pointed out that there are a number of political reasons that government workers are likely to, generally speaking, receive unusually large annual raises. In short, public sector unions are able to exert influence over government policy to extract “economic rents”—an economic term for compensation above and beyond the market value of their labour. Because public sector unions can strike and cause serious problems for government, there is an incentive for governments to avoid that outcome—even if it means paying more than market costs for labour.

On the other hand, for most of the services they provide, governments do not face any competition from the private sector. This means that unlike private-sector firms, governments do not have to fear that if their costs are too high they will “lose customers” or face any other immediate consequences as a result of inefficiency and high operating costs.³ In short, governments do not have the same pressing need to keep costs low that drives private sector firms to restrain wage growth. Facing an urgent imperative to avoid strikes, and no urgent imperative to keep costs down, many economists predict government wages will generally increase faster than wages elsewhere in the economy—exactly what the Statistics Canada data shows has happened.

In light of these theoretical explanations for excessive wage growth for government workers, the empirical reality of anomalously rapid government wage growth deserves careful scrutiny. While we should remain open to the possibility of benign explanations, the phenomenon should be examined carefully by governments to determine the role of union influence and rent seeking.

3. Herbert Grubel. “Canada’s high-cost public service” Financial Post. May 4, 2010.

<http://network.nationalpost.com/NP/blogs/fpcomment/archive/2010/05/04/canada-s-high-cost-public-service.aspx>

Conclusions

This paper has used Statistics Canada's NAICS data to show that public administration workers at the federal and provincial levels have seen their wages increase, on average, faster than any other major category of worker in the country over the past decade.

Whereas the average worker in the entire economy saw his wages increase by 30% between 1998 and 2009, average wages for federal public administration workers have increased by 59%. The average wage for provincial public servants has increased by 55%. None of the private-sector industries tracked by Statistics Canada came close to matching this level of wage growth. In the private industries which experienced the fastest wage growth during this period, wages grew by 46%.

It is possible that benign economic forces such as increased returns to education or changes in the composition of government workforces are responsible for this uniquely rapid rate of wage increases. However, it is also possible that other explanations identified by economists and political scientists—such as union influence and rent seeking—are responsible for rapid public administration wage growth. Therefore, the sizeable gap between public administration workers and all other industries, including industries that are comprised of highly-educated workers, deserves close scrutiny. Federal and provincial governments should carefully examine the causes of the uniquely rapid wage growth for public administration workers to determine the extent to which rent seeking and union influence over policy are responsible for the anomalously rapid growth in wages for these workers.

Governments should carefully examine the causes of the uniquely rapid wage growth...

FURTHER READING

September 2009

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<http://www.fcpp.org/publication.php/2955>

April 2010

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<http://www.fcpp.org/publication.php/3273>

About the author



Ben Eisen, M.P.P., is a Policy Analyst with the Frontier Centre for Public Policy. Ben holds a Masters Degree in Public Policy from the University of Toronto's School of Public Policy and Governance. Ben has completed a public policy internship with the federal government, and has worked as a researcher for the CBC. Since joining the Frontier Centre in the spring of 2009, Ben has authored policy studies on a wide range of subjects including an analysis of the unintended consequences of Canada's equalization program and a comparison of healthcare system performance in Canada relative to European countries. Ben's policy columns have been published in newspapers across Canada including the National Post, the *Winnipeg Free Press*, the *Calgary Herald*, *The Montreal Gazette*, and the *Toronto Sun*.



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